

CHAPTER 4: BORROWER ELIGIBILITY

4.1 OVERVIEW

Ensuring that all applicants served are eligible and receive the correct amount of assistance is a significant responsibility of Loan Originators. A borrower must be income-eligible, demonstrate a credit history that indicates ability and willingness to repay a loan, and meet a variety of other program requirements. This chapter provides guidance for each of these areas.

- **Section 1: Evaluating Borrower Income** provides instructions for calculating annual, adjusted, and repayment income.
- **Section 2: Evaluating Borrower Assets** discusses Agency requirements for cash contributions to the purchase and methods for computing income from assets.
- **Section 3: Credit History** identifies indicators of acceptable and unacceptable credit, and provides instructions for reviewing an applicant's credit history.
- **Section 4: Other Eligibility Requirements** addresses a variety of other requirements applicants must meet to be eligible for the program.

SECTION 1: EVALUATING BORROWER INCOME

4.2 OVERVIEW [7 CFR 3550.53(a) and (g), 7 CFR 3550.54]

Loan Originators use income information to: (1) help determine whether an applicant is eligible for a loan; (2) calculate the applicant's ability to repay a loan; and (3) determine the amount of the loan and the amount of payment subsidy the household can obtain. This section provides guidance for verifying and calculating income for each of these purposes.

A. Key Concepts for Income Determinations

1. Income Definitions

Three income definitions are used. Whenever income determinations are made, it is essential that the Loan Originator use the correct income definition and consider income from the appropriate household members. To determine whether the applicant will be able to repay a loan, the Loan Originator must use **repayment income**. To determine whether an applicant is income-eligible to receive a program loan or payment subsidies, the Loan Originator must use **adjusted income**. Adjusted income is calculated in 2 steps. First, the **annual income** of all household members is calculated. Then, certain household deductions for which the family may qualify are subtracted from annual income to compute adjusted income.

2. Whose Income To Count

For repayment income, the Loan Originator must consider only the income of household members who will be parties to the note. For adjusted income, the income of all household members must be considered. For both types, live-in aides, foster children, and foster adults living in the household are not considered household members.

3. Income Limits

Some program rules differ according to the income of the applicant. Three different income limits are used for the Section 502 and 504 programs. The National Office provides the income limits and updates the limits whenever they are revised. The income limits are included in Appendix 9. **Adjusted income** should be compared to the income limit to determine the category in which each household falls. Income limits are as follows:

- The very low-income limit is established at approximately 50 percent of the median income for the area, adjusted for household size;
- The low-income limit is established at approximately 80 percent of the median income for the area, adjusted for household size; and
- The moderate-income limit is established by adding \$5,500 to the low-income limit for each household size.

Paragraph 4.2 Overview [7 CFR 3550.53(a) and (g), 7 CFR 3550.54]

4. Applicant Certification and Verification Requirements

Each applicant must provide the income, expense, and household information needed to enable the Agency to make income determinations. Most of this information is provided on the application, but some additional followup with the applicant may be required, as described in Paragraph 3.6. Information provided by the applicant must be verified by the Loan Originator.

B. Using UniFi and the Income Worksheet to Compute Income

All 3 types of income are calculated in UniFi using data entered by the Loan Originator. Attachment 4-A provides a Sample Worksheet for Computing Income that helps Loan Originators organize applicant information for data entry and provides instructions to calculate each type of income manually. Attachment 4-B contains a case study using the worksheet to illustrate the calculations.

4.3 SOURCES OF INCOME

Attachment 4-C, Annual Income Sources and Attachment 4-D, Repayment Income Sources provide lists of potential sources of income and indicates whether each source is counted for repayment income and/or annual income. This section highlights and provides additional guidance about some of those sources.

A. Income That is Never Counted

The following income is *never* counted for either repayment or annual income:

- Income received by live-in aides, regardless of whether the live-in aide is paid by the family or a social service program (family members cannot be considered live-in aides unless they are being paid by a health agency and have an address, other than a post office box elsewhere);
- Income received by foster children or foster adults who live in the household;
- Earned income of minor (however, earned income from a spouse that is a minor or unearned income attributable to a minor, such as child support, Aid to Families with Dependent Children (AFDC) payments, and other benefits paid on behalf of a minor are counted); or
- Payments received on reverse amortization mortgages (these payments are considered a drawdown on the applicant's assets).

B. Verifying Sources and Amounts

Loan Originators must verify income information provided by the applicant. As described in Paragraph 3.14, written verifications provided by third-party sources or documents prepared by third-party sources are generally preferred. Oral verifications, if accepted, must be documented carefully.



1. Verification Documents and Forms

Attachment 4-E summarizes verification requirements for key sources of income. Each applicant must sign *Form RD 3550-1, Authorization to Release Information* at the time of application. Copies of this form must accompany any request for verification from third-party sources. Appendix 2 provides sample certification and verification formats for a number of purposes.

2. Timing

Written income-related verifications are valid for 90 days and may be valid for an additional 60 days with oral reverification at the end of the 90 day period. In no case may information that is older than 150 days be used.

3. Projecting Income for a 12-Month Period

Current income and family circumstances may be used to estimate the household's income over the next 12 months, unless there is verifiable evidence of a likely change in circumstances or historical information does not support current income. For example, if one of the household members works overtime in the winter, and if income is being verified in the summer, historical overtime will be used to project income. Historical information may also be used to estimate income that is anticipated to be received for less than 12 months. For example, if one of the household members is a seasonal worker, the income attributable to that worker should be based upon past history, rather than annualizing current income.

Example - Annualizing Short-Term Income

Assume a family member who currently has no income historically has seasonal income during the summer months and earns on the average \$4,000 during that time. Confirm with the applicant that the same seasonal pattern is expected and use historical data to project income for the coming 12 months.

4. *Income of Temporarily Absent Family Members*

Household members may be temporarily absent from the household for a variety of reasons, such as temporary employment or students who live away from home during the school year. The income of these household members is considered when computing annual income and, if the person is a party to the note, for repayment income.

Example - Temporarily Absent Member

James Brown and his wife have applied for a loan. At the moment, James is working on a construction job on the other side of the State and comes home every other weekend. He earns \$600/week and uses approximately one-third of that amount for temporary living expenses. The full amount of the income earned would be counted for both repayment and annual income.

If the absent person is not considered a member of the household and is not a party to the note, the Loan Originator must not count their income, must not consider them when determining deductions for adjusted income, and must not consider them as a family member for determining which income limit to use.

5. *Wage Matching*

In states where the Agency has the legal authority to do wage matching, the Loan Originator will use wage matching to verify income for 5 percent of those households that receive *Form 1944-59, Certificate of Eligibility*. The wage matching request should include all adult members of the household, whether or not they have reported taxable income. If the State does not have sufficient resources to conduct all required wage matching, the State Director should request that the Deputy Administrator, Single Family Housing, authorize a lower percentage.

If the wage matching information does not correspond closely with the income reported by the household, the Loan Originator should discuss the discrepancies with the applicant, and adjust the household's income, as appropriate.

4.4 CALCULATING ANNUAL AND ADJUSTED INCOME

Adjusted income is used to determine eligibility for the Section 502 and 504 programs, as well as eligibility for and the amount of payment subsidies under Section 502.

A. Calculating Annual Income

Annual income is used as the base for computing adjusted income. Income of all household members, not just parties to the note, should be considered when computing annual income. Attachment 4-C can be used to determine which sources of income to count and which to exclude. Part II of the Calculation Worksheet in the case study of Attachment 4-B illustrates the calculation of annual income.

B. Calculating Deductions from Annual Income

Adjusted income is calculated by subtracting from annual income any of 5 deductions that apply to the household. Not all households are eligible for all deductions. Exhibit 4-1 summarizes these deductions. The remainder of this paragraph provides guidance on determining whether a family is eligible for each deduction and verifying and calculating these amounts. Part II of the Calculation Worksheet in the case study of Attachment 4-B also illustrates the use of these deductions and the calculation of adjusted income.

Exhibit 4-1		
Allowable Deductions from Annual Income		
Deduction	Elderly Households	Nonelderly Households
Dependent Deduction	Yes	Yes
Child Care Expenses	Yes	Yes
Elderly Household	Yes	No
Medical Expenses	Yes	No
Disability Assistance	Yes	Yes

C. Dependent Deduction

A deduction from annual income of \$480 is made for each household member who qualifies as a dependent. Dependents are members of the family who are not the head or spouse, and who are age 17 or younger, an individual with a disability, or a full-time student.

D. Child Care Expenses

Reasonable unreimbursed child care expenses for the care of children age 12 and under are deducted from annual income if: (1) the care enables a family member to work, actively seek employment, or go to school; (2) no other adult household member is available to care for the children; and (3) in the case of child care that enables a family member to work, the expenses deducted do not exceed the amount of income included in annual income earned by the household member enabled to work. If the child care provider is a household member, the cost of the children's care cannot be deducted.

Paragraph 4.4 Calculating Annual and Adjusted Income

To qualify for the deduction, the applicant must:

- Identify the children who are receiving the child care and the family member who can work, seek employment or go to school as a result of the care;
- Demonstrate that there is no adult household member available to care for the children;
- Identify the child care provider, the hours of child care provided, and the costs; and
- If the expenses enable a family member to go to school, identify the educational institution. The family member need not be a full-time student.


Verification of Child Care Expenses

The child care hours must parallel the hours the family member works or goes to school. Appendix 2 provides a sample format applicants can use to document child care. Other acceptable formats include a letter on the child care provider's letterhead or a copy of a signed child care contract.

E. Elderly Household Deduction

A single \$400 deduction is subtracted from annual income for any elderly household. To be considered an elderly household, the head of household, spouse, or sole member of a family who is party to the note must be 62 years of age or older, or an individual with a disability.

In the case of a family where the deceased applicant or spouse was at least 62 years old or an individual with disabilities, the surviving household shall continue to be classified as an "elderly household" for the purposes of determining adjusted income if:

- At the time of death of the deceased family member, the dwelling was financed by the Agency;
- The surviving household member occupied the dwelling with the deceased family member at the time of death; and
- The surviving spouse (if any) has not remarried.

F. Care of Household Members

Reasonable expenses for the care of an individual with disabilities in excess of 3 percent of annual income may be deducted from annual income if the expenses:

- Enable the individual with disabilities or another family member to work;
- Are not reimbursable from insurance or any other source; and
- Do not exceed the amount of earned income included in annual income by the person who is able to work as a result of the expenses.

To qualify for this deduction, applicants must identify the individual with a disability on the application. *Form RD 1944-4, Certification of Disability or Handicap* should be used to request verification of the individual's disability from a physician or other medical professional.



Typical Disability Expenses

- Care attendant to assist an individual with disabilities with activities of daily living directly related to permitting the individual or another family member to work.
- Special apparatus, such as wheelchairs, ramps, adaptations to vehicles or work place equipment, if directly related to permitting the individual with disabilities or another family member to work.



Typical Medical Expenses

- Services of physicians other health care providers
- Services of hospitals other health care facilities
- Medical premiums
- Prescription and nonprescription medicine
- Dental expenses
- Eyeglasses and eye examinations
- Medical or health products or apparatus (hearing aids, wheel chairs, etc.)
- Live-in or periodic medical care (e.g., visiting nurses or care attendants)
- Periodic payments on accumulated medical bills

G. Deduction for Medical Expenses (for Elderly Households Only)

Medical expenses may be deducted from annual income for elderly households if the expenses: (1) will not be reimbursed by insurance or another source; and (2) when combined with any disability assistance expenses are in excess of 3 percent of annual income.

If the household qualifies for the medical expenses deduction, expenses of the entire family are considered. For example, if a household included the head (grandmother, age 64), her son (age 37), and her granddaughter (age 6), the medical expenses of all 3 family members would be considered.

Paragraph 4.4 Calculating Annual and Adjusted Income

One of the most challenging aspects of determining allowable medical expenses is estimating a household's medical expenses for the coming year. While some anticipated expenses can be documented easily (for example, Medicare or other health insurance premiums and ongoing prescriptions), others need to be estimated. The Loan Originator should use historical information about medical bills to estimate future expenses. However, the estimates should be realistic. For example, if the household has a significant medical bill, the Loan Originator would count only that portion of the bill that is likely to be paid during the coming year.

**Example - Calculating the
Medical Expense Deduction**

The Jensons are an elderly household with annual income of \$25,000 and anticipated medical expenses of \$3,000 that are not covered by insurance or another source. The allowable medical expenses would be:

Total Medical Expenses	\$3,000
(less) 3% Annual Income	-\$ 750
(\$25,000 x 0.03)	
Allowable Medical Expenses	\$2,250

Note that for the calculation of assets discussed in Section 2 of this chapter, *all* households are eligible for a consideration of medical expenses, not just elderly households.

4.5 CALCULATING REPAYMENT INCOME

Repayment income is the amount of the household's income that is available to repay the Agency's debt. To compute repayment income, the Loan Originator should count only the income of persons who will be parties to the note. See Attachment 4-D for possible sources of income to be included.

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SECTION 2: EVALUATING BORROWER ASSETS [7 CFR 3550.54(d)]

4.6 OVERVIEW OF POLICIES RELATED TO ASSETS

Assets affect an applicant's ability to obtain a loan in 2 ways. First, applicants may be required to use assets to make a down payment covering some of the costs of purchasing a home. Second, many types of assets generate income that must be included in the calculations of annual and repayment income. Exhibit 4-2 presents a list of assets that must be considered when making these determinations and also identifies certain types of assets that are not considered.

A. Reporting Assets

Applicants must provide information about household assets at the time of loan application and whenever an income determination is made. Applicants must provide sufficient information to enable the Loan Originator to verify the asset information and compute the market and cash value of the asset. *Form RD 1944-62, Request for Verification of Deposit* provides basic information about borrower assets held by a lender. Two of the certification forms provided in Appendix 2, *Verification of Pensions and Annuities* and *Certification of Disposition of Assets*, can be used to obtain additional information about the applicant's assets.

Example - Calculating Cash Value of An Asset

Mr. Smith has \$10,000 in an IRA account. The account's market value is \$10,000. But in order to withdraw funds from the account, Mr. Smith must both pay a withdrawal penalty and taxes on the amount withdrawn.

The cash value of the IRA account is:

	\$10,000	Market value
less	200	Withdrawal penalty
less	2,000	Tax
	\$7,800	Cash Value

Exhibit 4-2

Types of Assets

The following types of assets must be considered.

Nonretirement assets including:

- Savings accounts and the average 6-month balance of checking accounts;
- Stocks, bonds, savings certificates, money market funds, and other investment accounts;
- Equity in real property or other capital investments;
- Trust funds that are available to the household;
- Lump-sum receipts, such as inheritances, capital gains, lottery winnings;
- Personal property (such as jewelry) held as an investment; and
- Cash value of life insurance policies.

Retirement assets including:

- Amounts in voluntary retirement plans that can be withdrawn, such as individual retirement accounts (IRAs), 401(K) plans, and Keogh accounts; and
- Amounts in other retirement and pension plans that can be withdrawn without retiring or terminating employment.

The following types of assets are not considered.

- The value of necessary items of personal property, such as furniture and automobiles;
- Assets that are part of any business, trade, or farming operation in which any member of the household is actively engaged;
- The value of an irrevocable trust fund, or the value of any trust over which no member of the household has control;
- Interests in American Indian trust land; and
- For income calculations, any assets on hand that will be used to reduce the amount of the loan.

B. Calculating Market and Cash Value

The **market value** of an asset is simply its dollar value on the open market. For example, the market value of \$2,000 in a savings account is \$2,000 and the market value of real estate is its appraised value. The **cash value** of an asset is the market value, less reasonable expenses to convert the asset to cash. For example, the cash value of stock worth \$5,000 would be \$5,000 less any broker's fee.

Paragraph 4.6 Overview of Policies Related to Assets

C. Retirement Assets

Retirement assets are savings and investments that have been specifically designated as retirement funds. Not all retirement assets are considered. If the applicant can receive the retirement funds only by borrowing them, or upon retirement or termination of employment, the funds are not counted as assets for determining income or for down payment requirements. If the applicant can withdraw retirement funds without retiring or terminating employment, the funds are counted as assets, even though penalties may apply.

4.7 LIMITATIONS ON ASSETS

The cash value of assets that are above the limitations described in this paragraph must be used to pay for costs related to the purchase of the home. For this purpose, only the assets of parties to the note are considered.

A. Limitation on Nonretirement Assets

If the cash value of nonretirement assets is greater than \$7,500 for nonelderly households or \$10,000 for elderly households, the cash value in excess of these amounts must be used toward the purchase of the property.

B. Limitation on Retirement Assets

For non-retired applicants, if the *market value* of retirement assets is greater than the applicable adjusted median income limit, the *cash value* of assets in excess of that amount must be used toward the purchase of the property. For retired applicants, if income is derived from either retirement assets alone or retirement assets and other retirement income, the applicant will not be required to use retirement assets as a downpayment. Real estate assets will be used as a test for other credit.

C. Exception to the Asset Limitations

In cases in which the family is experiencing unreimbursed medical expenses in excess of 3 percent of annual income, the Loan Approval Official may increase the applicable asset limit by the amount of the medical expenses in excess of 3 percent of annual income. The reasons for the waiver must be documented carefully.



4.8 CALCULATING INCOME FROM ASSETS FOR ANNUAL INCOME

For the purpose of computing annual income, the assets of *all household members* are considered. In addition, if any household member has disposed of assets for less than fair market value during the 2 years preceding the determination of annual income, the asset must be considered when calculating income from assets for annual income.

A. Two Methods for Calculating Income from Assets

Two different methods of calculating income from assets are used, depending upon the total cash value of household assets.

If the cash value of total assets is \$5,000 or less, the amount of asset income included in annual income is the actual income to be derived from these assets.

If the cash value of total assets is more than \$5,000, the amount of asset income included in annual income is the greater of: (1) the actual income to be derived from the assets; or (2) an imputed income from assets that is calculated by multiplying the total cash value of assets by a locally-determined passbook rate. Generally, the imputed income from assets is larger than the actual income to be derived from the assets when an applicant owns nonincome-producing assets of significant value.

Example - Income from Assets for Annual Income Calculation

Charles and Patty Brown, both age 40, have applied for a program loan. The Brown family has the following assets.

A certificate of deposit of \$6,800 they have been saving for a down payment. It earned 6.8% or \$462 of interest last year. Estimated cash value after paying penalties is \$6,500.

A savings account with \$4,000 earning 4% annually.

The 6-month balance in the checking account is \$300 (noninterest-bearing account).

The cash value of the Browns' assets is \$10,800 (\$6,500 + \$4,000 + \$300). However, the Browns will be required to use \$3,300 (assets in excess of \$7,500) toward the purchase of the dwelling. Therefore, the cash value of assets to be counted toward income from assets is \$7,500. The cash value of the remaining assets is more than \$5,000. To compute income from assets, use the greater of actual income or imputed income.

	Cash Value	Actual Income Earned	Imputed Income (local passbook rate is 4%)
Checking Account	\$ 300	\$ 0	\$300 (\$7,500 x 0.04)
Certificate of Deposit	\$6,500	\$442 (\$6,500 x 0.068)	
Savings ((\$4,000 - \$3,300 down payment)	\$ 700	\$ 28 (\$700 x 0.04)	
TOTAL	\$7,500	\$470	

Paragraph 4.8 Calculating Income from Assets for Annual Income

B. Assets Disposed of for Less than Fair Market Value

Applicants who dispose of assets for less than fair market value have, in essence, voluntarily reduced their ability to afford housing. Therefore, assets disposed of for less than fair market value during the 2 years preceding a determination of annual income must be used in the annual income calculation. Assets disposed of for less than fair market value as a result of foreclosure, bankruptcy, divorce, or separation are not included in this calculation.

Example - Valuing a Disposed Asset

An applicant sold a property to a relative for \$15,000 on July 1, 1996. The property was valued at \$30,000 and had no loans against it.

Market value	\$30,000
(Less) Settlement costs	\$ 2,000
(Less) Sales price	<u>\$15,000</u>
Cash value	\$13,000

The \$13,000 would be counted as an asset for any annual income determination conducted until July 1, 1998. Even though there would be no actual income from this asset, the \$13,000 would be used to establish total assets to determine the amount to be counted as annual income.

The Agency's application does not specifically ask whether assets were disposed of for less than fair market value. The Loan Originator should ask this question when reviewing the application for content and document the applicant's response.

The amount of income to be included in annual income calculation is the difference between the market value of the asset and the amount that was actually received (if any) in the disposition of the asset.

4.9 CALCULATING INCOME FROM ASSETS FOR REPAYMENT INCOME

Only the assets of parties to the note are considered and only the actual income to be derived from the assets is used to compute repayment income.

Example - Income from Assets for Repayment Income

Jose and Sylvia Gonzales, both age 40, have applied for a program loan. Sylvia's mother Maria (age 65) lives with them, but will not be a party to the note. The applicable adjusted median income limit for this household is \$40,000. The family reports the following assets.

Jose's 401(K) account is valued at \$9,000 and earned 6% or \$540 last year. Estimated cash value after penalty and taxes is \$7,000.

Jose and Sylvia's savings account with \$8,500 earning 4% annually has no withdrawal penalties, and the \$300 6-month balance in their checking account earns no interest.

Maria's savings account of \$2,000 earned 2.5% interest last year.

Retirement Asset Test. Because the \$9,000 market value of the Gonzales' 401(K) account is less than \$40,000, the household is not required to use any retirement assets toward purchase of the home.

Nonretirement Asset Test. The cash value of the Gonzales' nonretirement assets is \$8,800. Maria's account is not counted because she will not be a party to the note. The nonretirement limit applicable to the family is \$7,500. Therefore, the Gonzales family must contribute at least \$1,300 (\$8,800 - \$7,500) of their savings toward the purchase of the home.

	Market Value	Cash Value	Actual Income Earned
Checking	\$ 300	\$ 300	\$ 0
Savings (\$8,500 - \$1,300)	\$7,200	\$ 7,200	\$288 (\$7,200 x 0.04)
401(K)	\$9,000	\$ 7,000	\$540 (\$9,000 x 0.06)
TOTAL	\$7,500	\$14,500	\$828 (counted in repayment income)

SECTION 3: CREDIT HISTORY [7 CFR 3550.53(h)]

4.10 OVERVIEW

An applicant's credit history is evaluated at 2 points during the application process -- first, through preliminary credit checks conducted when a complete application has been submitted, and later, through third-party verifications conducted when the applicant is selected for processing.

To be eligible for a Section 502 loan, applicants must demonstrate that they are reasonably able and willing to repay a Section 502 loan. This section begins with a discussion of the criteria that Loan Originators must use in assessing an applicant's credit history. It then describes the procedures for conducting preliminary credit checks and full credit reviews, and provides guidance for evaluating the information obtained. It concludes with criteria for making exceptions.

4.11 CREDIT REQUIREMENTS

The Loan Originator must evaluate the credit history for each applicant who will be a party to the note. An applicant's credit record does not have to be perfect to be eligible for a loan. A few instances of credit problems can be acceptable if an applicant's overall credit record demonstrates an ability and willingness to repay obligations. Exhibit 4-3 spells out the indicators of unacceptable credit that should be used to evaluate an applicant's credit history. These indicators must be followed consistently; however, the Loan Approval Official can make exceptions in limited circumstances, as described in Paragraph 4.15.



The Loan Originator must investigate all major indications of unacceptable credit to determine whether they are accurate, and whether there is an acceptable explanation for the problem that might justify an exception. Failure to understand the nature of a credit problem could put the Agency at risk of providing financing to an applicant who is unable or unwilling to repay the debt, or could cause the Agency to reject an applicant on the basis of inaccurate or incomplete information.



Cosigners

Cosigners must meet the same credit-worthiness requirements as applicants.

For instance, an applicant with no credit history reflected on a credit report will require further examination. This is because not every creditor reports to credit bureaus, and the Agency must have a full picture of the applicant's willingness to pay recurring debt before rejecting an application due to lack of credit history. For example, an applicant may be able to document an acceptable credit history through submission of a third party verification, copies of canceled checks, or other acceptable documentation for monthly obligations such as rent, utility, phone or doctor bills, or other recurring debt payments.

Exhibit 4-3

Indicators of Unacceptable Credit

- No credit history. (Note: A lack of credit history reflected on a credit report may be mitigated if the applicant can document a willingness to pay debts through submission of a third party verification, copies of canceled checks, or other acceptable documentation for monthly obligations such as rent, utility, phone or doctor bills, or other recurring debt payments.)
- Incidents of more than 2 debt payments more than 30 days late within the last 12 months.
- A foreclosure that has been completed within the last 36 months.
- An outstanding Internal Revenue Service (IRS) tax lien or any other outstanding tax liens with no satisfactory arrangement for payment.
- Two or more rent payments paid 30 or more days late within the last 2 years. If the applicant has experienced no other credit problems in the past 2 years, only 1 year of rent history will be evaluated. This requirement may be waived if the program loan will reduce shelter costs significantly and contribute to an improved repayment ability.
- Outstanding collection accounts with a record of irregular payments with no satisfactory arrangements for repayment, or collection accounts that were paid in full within the last 6 months, unless the applicant had been making regular payments previously.
- Non-Agency debts written off within the last 36 months, unless the debt was paid in full at least 12 months ago.
- Agency debts that were debt settled within the past 36 months, or are being considered for debt settlement.
- Delinquency on a federal debt.
- A court-created or court-affirmed obligation or judgment caused by nonpayment that is currently outstanding or has been outstanding within the last 12 months, *except*:
 - ◊ A bankruptcy in which:
 - ◆ Debts were discharged more than 36 months prior to the date of application; or
 - ◆ Where an applicant successfully completed a bankruptcy debt restructuring plan and has demonstrated a willingness to meet obligations when due for the 12 months prior to the date of application.
 - ◊ A judgment satisfied more than 12 months before the date of application.

An applicant with an outstanding judgment obtained by the United States in a Federal court, other than the United States Tax Court, is *not* eligible for a Section 502 loan. This requirement is statutory and cannot be waived.

Paragraph 4.11 Credit Requirements

If an applicant's credit history is unacceptable, the Loan Originator should counsel the applicant about the specific problems identified, and ways to improve the household's credit record for the future. The Loan Originator should make it clear that establishing a pattern of meeting obligations that conforms to the Agency's standards might make it possible for the applicant to qualify for a Section 502 loan in the future.


The Loan Originator must use consistent standards and procedures when evaluating credit qualifications to ensure equity and fairness. Special areas of concern include:



- Determining what constitutes acceptable documentation;
- Counseling applicants about ways to correct adverse credit; and
- Interpreting subjective information.

4.12 CONDUCTING PRELIMINARY CREDIT CHECKS

When a complete application is received, the Loan Originator must make a preliminary determination of eligibility, as described in Paragraph 3.8. As part of the preliminary determination, the Loan Originator should conduct 2 preliminary credit checks to provide an indication of the applicant's credit history. These checks involve accessing the Department of Housing and Urban Development's Credit Alert Interactive Voice Response System (CAIVRS), and ordering an Infile Credit Report.



Two Preliminary Credit Checks

- CAIVRS
- Infile Credit Report

Preliminary credit checks can save time and money, both for applicants and for Agency staff. By conducting such screening, the Loan Originator can get a preview of the information likely to appear on the credit report. After discussing the accuracy of the information with the applicant, the Loan Originator can make a recommendation to the applicant about the likelihood of receiving a loan, given the available information. If it appears that the applicant would not qualify for a loan, the preliminary credit check can save the applicant the cost of the credit report fee, which need not be paid unless a credit report is ordered.

A. Credit Alert Interactive Voice Response System

Except in very unusual circumstances, an applicant who is delinquent on a Federal debt is not eligible for a Section 502 loan. The Loan Originator can verify that the applicant has no delinquent Federal debt through CAIVRS. However, credit must not be denied based solely on the results of the CAIVRS inquiry.

The Loan Originator should record his or her CAIVRS identity number and the applicant's access code at the top of *Form RD 410-4, Uniform Residential Loan Application* to document that the applicant's delinquency status has been checked.

If CAIVRS indicates that the applicant has a delinquent Federal debt, the Loan Originator should suspend application processing, notify the applicant of the reason for the suspension, and provide the telephone number CAIVRS lists as a point of contact for resolving the delinquency. If the applicant does not notify the Agency within 30 days that the problem has been resolved, the application must be rejected and the applicant should be notified in writing. The Administrator may grant an exception to this requirement if it is in the best interest of the Government.



Exceptions to Delinquent Federal Debt

If the applicant has a delinquent Federal debt, the Administrator has the authority to grant an exception if arrangements for payment have been made and it is in the best interest of the Government.

If the delinquency is paid in full or otherwise resolved within the 30-day time frame, application processing can continue. If the applicant resolves the issue after the application has been rejected, and wishes to reapply, the applicant must submit a new application, which must be processed according to the new submission date.

B. Infile Credit Report

The Loan Originator should order an Infile Credit Report for all applicants, in order to screen for potential credit problems, unless such a report was already ordered by a loan packager, real estate broker, or other entity. The results of the Infile Credit Report can help identify possible credit problems that should be corrected before the applicant pays a credit report fee. However, an applicant should never be rejected on the basis of the information contained in the Infile Credit Report.

Paragraph 4.12 Conducting Preliminary Credit Checks

If the Infile Credit Report uncovers adverse information that could prevent the applicant from receiving a loan, the Loan Originator should discuss the findings with the applicant, and provide specific information from the Infile Credit Report to assist the applicant in addressing the credit problems. If the applicant acknowledges that the credit blemishes are accurate, but indicates that they were due to circumstances beyond his or her control, the Loan Originator should record those reasons as documentation for making an exception.



If the applicant has credit blemishes that appear to be serious enough to warrant rejecting the application, the Loan Originator should advise the applicant of the apparent problems. Depending on the length of the Field Office's waiting list and the specific problems identified, the Loan Originator should either advise the applicant that it would be wise to address the outstanding credit issues before continuing with the application, or to address the credit issues while the application awaits selection. The Loan Originator also should counsel the applicant about ways to correct the problems on the Infile Credit Report and provide ideas about ways to avoid credit problems in the future.

4.13 CONDUCTING FULL REVIEW OF CREDIT HISTORY

Once the applicant is selected for processing, the Loan Originator must obtain third-party verifications to determine whether the applicant's credit history meets the Agency's criteria. Procedures for verifying the accuracy of information provided by the applicant are described in Paragraph 3.14. Guidelines for reviewing the applicant's credit history are provided here.



Helpful Hint

Due to contractual agreements with credit bureaus, the Agency cannot provide a copy of a credit report directly to the applicant. The Agency can share with or accept a credit report from another lender in leveraging situations.

If an applicant is denied assistance based upon information contained in a credit report, the Agency must provide the applicant:

- The name, address, and toll free number of the credit bureau;
- A statement to the applicant that the denial of their loan request was made by the Agency, and not the credit bureau;

- Notice of their right to obtain a free copy of their credit report from the credit bureau within 60 days from the date of the Agency's adverse action; and
- Notice of the applicant's right to dispute to the credit bureau the accuracy or completeness of the credit report provided to the Agency.

A. Credit Report

The credit report will include a summary listing of the applicant's credit activity, including open accounts and payment history, outstanding amounts due, and credit limits. The Loan Originator should review the credit report for any signs of unacceptable credit, using the criteria outlined in Exhibit 4-4. If the credit report indicates that there may be any credit blemishes that could be indicators of unacceptable credit, the Loan Originator should discuss the report with the applicant and ask for clarifications. A copy of the credit report must be retained in the case file. If the credit report is more than 6 months old when the underwriting decision is being made, a new credit report must be ordered at no cost to the applicant.

B. Other Credit Verifications

If the credit report fails to verify the credit sources reported by the applicant, the Loan Originator should send *Form RD 1944-60, Landlord's Verification* and *Form RD 410-8, Applicant Reference Letter*, to the parties indicated in the application. The forms should be accompanied by a preaddressed, prestamped envelope and *Form RD 3550-1, Authorization to Release Information*, which authorizes the respondent to release the information.

1. Landlord's Verification

Form RD 1944-60 is used to verify the applicant's past record of making timely rental payments. The Loan Originator should generate separate copies of *Form RD 1944-60* for each landlord listed on the application for the past 2 years.

Paragraph 4.13 Conducting Full Review of Credit History

Exhibit 4-4**Guidelines for Evaluating Credit Reports**

- Different credit bureaus or repositories present information in different formats. Be familiar with the different formats and take time in reviewing the report to avoid errors.
- Obtain clarification of any questionable items or terms (for example, terms such as “slow” or “late pay” have varied meanings). No decisions should be made until the terms in question are translated into defined terms (e.g., for this repository, “slow pay” means 30 days late). Document clarification of terms in the case file.
- Upon receiving the credit report, verify the name, address, and Social Security Number.
- Compare the employment information and rental data on the credit report, if available, with the information on the application. (Note: the Agency’s contract does not require that the credit bureau furnish that information.)
- Compare the remainder of the credit report to the application. Consider the following questions when reviewing the application.
 - ◊ Are all the accounts reported on the credit report listed on the application? (Note: There may be additional accounts on the application that are not on the credit reports because not all creditors furnish information to a credit bureau or repository.)
 - ◊ Does any of the information on the credit report contradict the application?
 - ◊ What information indicates unacceptable credit? List late payments, chargeoffs and other relevant information.
- If the credit report reflects no credit history, ask the applicant for other documentation which may reflect a willingness to pay recurring debts. The applicant may be able to submit a third party verification, copies of canceled checks, or other acceptable documentation for monthly obligations such as rent, utility, phone or doctor bills, or other recurring debt payments which will reflect an acceptable credit history.
- Highlight areas of concern and develop a list of questions or issues that need clarification from the applicant.

If the landlord reports that during the past 12 months the applicant “always pays by the due date” or “pays within 1-10 days of the due date” and is current on the rent, the applicant’s rental history should be considered satisfactory. If the landlord reports that the applicant “pays over 30 days late” or “generally stays behind schedule,” or if the applicant is currently behind on the rent, the Loan Originator should follow up with a call to the landlord.

Confirmation that the applicant has paid 2 or more rent payments 30 or more days late within the last 2 years generally would be an indicator of unacceptable credit. However, if the amount of rent paid by the applicant was significantly higher than the likely cost of principal, interest, taxes and insurance (PITI) with a Section 502 loan, an exception might be appropriate.

2. Applicant Reference Letter

Form RD 410-8 is used to obtain information about an applicant's credit history that might not appear on a credit report, for example credit from a local store. It can be used to document an ability to handle credit effectively for applicants who have not used sources of credit that appear on a credit report. It also provides a mechanism for following up on repayment history for debts reported by the applicant on the application that do not appear on the credit report.

If *Form RD 410-8* indicates that the applicant has made debt payments more than 30 days late more than 2 times in the past year, the Loan Originator should follow up with a call to the creditor. Confirmation that the applicant has paid 2 or more rent payments 30 or more days late within the last 2 years generally would be an indicator of unacceptable credit.

4.14 CREDIT HISTORY WORKSHEET

Form RD 1944-61, Credit History Worksheet is a checklist used to summarize the applicant's credit history and to determine whether there are any indicators of unacceptable credit. The Loan Originator should complete this form and include it in the case file to aid the Loan Approval Official in reviewing the applicant's credit history.



Consistency in Credit Review

Consistent use of *Form RD 1944-61* can help ensure that every applicant's credit history is reviewed based on the same criteria and that adverse indicators are not inadvertently overlooked.

4.15 MAKING EXCEPTIONS

Credit history problems do not always reflect an unwillingness to meet financial obligations. If the applicant's credit history does not meet the standards outlined in Exhibit 4-4, the Loan Originator should document the circumstances and request approval for an exception from the Loan Approval Official in the following types of situations.



Paragraph 4.15 Making Exceptions

- **Reduced shelter costs.** The loan will significantly reduce the applicant's shelter costs, which will result in improved debt repayment ability.
- **Temporary situation.** The circumstances that caused the credit problems were temporary in nature and beyond the applicant's control. Examples include loss of job, delay or reduction in benefits, illness, or dispute over payment of defective goods or services.
- **Benefit to the Government.** The applicant is delinquent on a Federal debt, and the Agency loan will allow the applicant to take actions that benefit the Government. This type of exception can only be made by the Administrator.

The Loan Approval Official is not authorized to make an exception in the case of an applicant with an outstanding judgment obtained by the United States in a Federal court, other than the United States Tax Court.

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SECTION 4: OTHER ELIGIBILITY REQUIREMENTS

4.16 OWNING A DWELLING

An applicant who owns a dwelling generally is not eligible for a Section 502 loan, except for refinancing assistance, as described in Paragraph 7.5 B. However, if the applicant's dwelling is structurally unsound, functionally inadequate, or too small to accommodate the needs of the household, funds may be provided to improve the existing dwelling or to purchase a new one.

4.17 ABILITY TO OBTAIN OTHER CREDIT

To be eligible, the applicant must be unable to obtain credit from other sources on terms and conditions they can reasonably be expected to fulfill. Applicants must reduce the need for credit by using available assets, as described in Section 2 of this chapter. In addition, applicants who may be able to obtain a portion of the needed funds from a private lender must attempt to do so, as described in Chapter 10.

4.18 OCCUPYING THE PROPERTY [7 CFR 3550.53(c)]

To be eligible for a Section 502 loan, applicants must agree to personally occupy the dwelling on a permanent basis. On the basis of this requirement, 2 types of applicants require special review.

- **Active duty military applicants.** Because of the probability of transfer, military personnel on active duty should not receive loans without proof that a discharge will be received within a reasonable period of time, usually within 1 year, and the family will continue to occupy the home in case the applicant is transferred to another duty station before discharge.
- **Student applicants.** Due to the probability of moves after graduation, full-time students cannot obtain loans unless they intend to make the home a permanent residence and there are reasonable prospects of securing employment in the area after graduation.

4.19 LEGAL CAPACITY [7 CFR 3550.53(e)]

To be eligible for a loan, the applicant must be considered an adult under State law, and must have the legal capacity to incur the loan obligation. An applicant with a court-appointed guardian or conservator who is empowered to obligate the applicant in real estate matters is eligible for a loan. The Loan Originator should assume that any applicant has the legal capacity to enter into the loan unless there is evidence to the contrary.



4.20 SUSPENSION OR DEBARMENT [7 CFR 3550.53(f)]

Individuals who have been suspended or debarred from participation in Federal programs are not eligible for Agency assistance.

4.21 CITIZENSHIP STATUS [7 CFR 3550.53(b)]

To be eligible for Agency assistance, the applicant must either be a U.S. citizen or provide acceptable evidence of eligible immigration status. Any applicant who is neither a U.S. citizen nor a qualified alien should be rejected. Aliens must provide acceptable evidence that they are qualified aliens, as listed in Exhibit 4-5. The Loan Originator should review the original document and make legible photocopies of both the front and back. If there is a question about the authenticity of the information provided, the Loan Originator must contact the Immigration and Naturalization Service (INS) for verification.

4.22 TRUTHFUL APPLICATION

Applicants must provide truthful information when applying for assistance. Any inconsistencies discovered throughout the application process should be verified. Applicants who provide false information, or who fail to disclose relevant information will be denied program assistance.



U.S. Citizens

Never ask about alien status if *Form RD 410-4, Uniform Residential Loan Application*, indicates the applicant is a U.S. citizen. *Always* require evidence if *Form RD 4104* indicates that the applicant is a qualified alien.

Paragraph 4.22 Truthful Application

Exhibit 4-5
Acceptable Evidence of Qualified Aliens

- *Form I-551, Alien Registration Receipt Card* or prior to 1979, *Form I-151* (for permanent resident aliens).
- *Form I-94, Arrival-Departure Record*, with one of the following annotations:
 - ◊ “Admitted as Refugee Pursuant to Section 207”;
 - ◊ “Section 208” or “Asylum”;
 - ◊ “Section 243(h)” or “Deportation stayed by Attorney General”; or
 - ◊ “Paroled Pursuant to Section 212(d)(5) of the Immigration and Nationality Act (INA)” for a period of at least a year.
- If *Form I-94, Arrival-Departure Record*, is not annotated, it should be accompanied by one of the following documents:
 - ◊ A final court decision granting asylum (but only if no appeal is taken);
 - ◊ A letter from an asylum officer of the U.S. Immigration and Naturalization Service (INS) granting asylum (if application is filed on or after October 1, 1990) or from an INS district director granting asylum (if application filed before October 1, 1990);
 - ◊ A court decision granting withholding of deportation; or
 - ◊ A letter from an INS asylum officer granting withholding of deportation (if application filed on or after October 1, 1990).
- An alien who is granted conditional entry pursuant to section 203(a)(7) of the INA as in effect prior to April 1, 1980, is a qualified alien.
- A receipt issued by the INS indicating that an application for issuance of a replacement document in one of the above-listed categories has been made, and the applicant’s entitlement to the document has been verified.

ATTACHMENT 4-A
SAMPLE WORKSHEET FOR COMPUTING INCOME

PART I: REPAYMENT INCOME CALCULATION

1. Name	2. Identification
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ASSETS (Consider only nonretirement assets and retirement assets that can be withdrawn by parties to the note):

Family Member	Asset Description	Market Value	Current Cash Value	Actual Income from Assets
3. Total		3a.	3b.	3c.
4. Assets to be used as down payment		4a.	4b.	4c.
5. Assets/income to be considered for repayment income purposes (Item 3 minus Item 4)		5a.	5b.	5c.

ANTICIPATED REPAYMENT INCOME (Consider only income of parties to the note using Attachment 4-D):

Family Member	a. Wages/ Salaries	b. Benefits/ Pensions	c. Public Assistance	d. Other Income	e. Asset Income
					Enter line 5c in Box e below
6. Totals	a.	b.	c.	d.	e.

7. Enter total of items 6a. through 6e. This is <u>Repayment Income</u> .	7.
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PART II: ANNUAL AND ADJUSTED INCOME CALCULATION

1. Name

2. Identification

FAMILY ASSETS:(Consider assets of all household members):

Family Member	Asset Description	Current Cash Value	Actual Income from Assets
3. Total Assets		3a.	3b.
4. Assets/income to be used as down payment (from Part I)		4a.	4b.
5. Assets/income to be considered for annual income (Item 3 minus Item 4)		5a.	5b.
6. If Line 5a is greater than \$5,000, multiply Line 5a. by ____ (passbook rate) and enter result here; otherwise, leave blank.			6.

ANTICIPATED ANNUAL INCOME (Consider income of all household members using Attachment 4-C):

Family Member	a. Wages/ Salaries	b. Benefits/ Pensions	c. Public Assistance	d. Other Income	e. Asset Income
					Enter the greater of Lines 5b or 6 in box e below
7. Totals	a.	b.	c.	d.	e.

8. Enter total of items 7a. through 7e.
This is Annual Income.

8.

ANNUAL AND ADJUSTED INCOME CALCULATION (Continued)

9. Annual income (enter line 8 from Part II).	9.
10. Number of family members (except parties to the note or their spouses) under 18, disabled, or full-time students.	10.
11. Multiply line 10 by 480.	11.
12. Child care deduction (reasonable expenses for care of children 12 and under that enable family member to work, actively seek employment, or further education).	12.
13. Elderly household deduction (enter \$400 if head of household or spouse who is party to the note is 62 or older or an individual with disabilities).	13.
14. Disability assistance expenses (reasonable expenses for disabled family member that enable a family member to work).	14.
15. Medical expenses in excess of insurance reimbursement (elderly households only).	15.
16. 3% of annual income (line 9 x 0.03).	16.
17. Allowable disability assistance/medical expenses (line 14 + line 15 minus line 16).	17.
18. Total deductions (add lines 11, 12, 13 and 17).	18.
19. Adjusted income (line 9 minus line 18).	19.

ATTACHMENT 4-B
CASE STUDY

SECTION 1 -- BACKGROUND

HOUSEHOLD MEMBERS

Name	Age	Relationship	Comments
David Brown	44	Head of household	Employed, party to note
Betsy Brown	44	Spouse	Employed, party to note
Cynthia Brown	70	David's mother	Disabled, Moved in when husband died
Janet Smith	19	Daughter	Full-time college student
Kathy Brown	14	Daughter	Full-time high school student
Chris Doe	8	Foster child	Full-time elementary student

HOUSEHOLD INCOME, ASSETS AND EXPENSES

Wages

David: \$250/week
Betsy: \$5.50/hour 20 hours/week
Janet: \$5.00/hour 20 hours/week
Kathy: \$4.00/hour 8 hours/week

Other Income and Assets

Betsy receives \$100/month in child support from her ex-husband (Janet's father).
Cynthia receives \$400/month social security benefits and has \$600 in a noninterest bearing checking account.
County pays household \$200/month to care for foster child.
Savings account balance \$4,000, annual income \$140.
Checking account balance (6 month average) \$300, noninterest bearing account.
Certificate of deposit \$4,000, cash value \$4,000, income \$400.

Expenses

Medical expenses not reimbursed, \$1,500.
Child care expenses for foster child, \$50/week.

INCOME LIMIT INFORMATION

Income Range	Number of Persons					
	1	2	3	4	5	6
Adjusted Median Income	\$19,000	\$23,000	\$25,000	\$27,000	\$29,000	\$31,000
Low-Income	\$15,200	\$18,400	\$20,000	\$21,600	\$23,200	\$24,800
Very Low-Income	\$ 9,500	\$11,500	\$12,500	\$13,500	\$14,500	\$15,500

SECTION 2 -- CALCULATION WORKSHEET

PART 1. REPAYMENT INCOME CALCULATION

2. Identification

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ASSETS (Consider only nonretirement assets and retirement assets that can be withdrawn by parties to the note):

Family Member	Asset Description	Market Value	Current Cash Value	Actual Income from Assets
David	Savings Account	\$4,000	\$4,000	\$140
	Checking Account	\$ 300	\$ 300	-
	Certificate of Deposit	\$4,000	\$4,000	\$400
3. Total		3a. \$8,300	3b. \$8,300	3c. \$540
4. Assets to be used as down payment		4a. \$800	4b. \$ 800	4c. \$ 28
5. Assets/Income to be considered for repayment income purposes (Item 3 minus Item 4)		5a. \$7,500	5b. \$7,500	5c. \$512

ANTICIPATED REPAYMENT INCOME (Consider only income of parties to the note using Attachment 4-D):

Family Member	a. Wages/ Salaries	b. Benefits/ Pensions	c. Public Assistance	d. Other Income	e. Asset Income
David	\$250 x 52 = \$13,000			\$200 x 12 = \$2,400	Enter line 5c in box e below
Betsy	\$5.50 x 20 x 52 = \$5,720			\$100 x 12 = \$1,200	
6. Totals	a. \$18,720	b.	c.	d. \$3,600	e. \$512

7. Enter total of items 6a. through 6e. This is <u>Repayment Income</u> .	7. \$22,832
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PART II: ANNUAL AND ADJUSTED INCOME CALCULATION

1. Name David and Betsy Brown	2. Identification:
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FAMILY ASSETS:(Consider assets of all household members):

Family Member	Asset Description	Current Cash Value	Actual Income from Assets
David	Savings Account (David)	\$4,000	\$140
	Checking Account	\$ 300	-
	Certificate of Deposit	\$4,000	\$400
	Savings Account (Cynthia)	\$ 600	-
3. Total Net Family Assets		3a. \$8,900	3b. \$540
4. Assets/Income to be used as down payment (from Part I)		4a. \$ 800	4b. \$ 28
5. Assets/Income to be considered for annual income (Item 3 minus Item 4)		5a. \$8,100	5b. \$512
6. If Line 5a is greater than \$5,000, multiply Line 5a. by <u>3.5%</u> (passbook rate) and enter result here; otherwise, leave blank.			6. \$284

ANTICIPATED ANNUAL INCOME (Consider income of all household members using Attachment 4-C):

Family Member	a. Wages/ Salaries	b. Benefits/ Pensions	c. Public Assistance	d. Other Income	e. Asset Income
David	\$250 x 52 = \$13,000				Enter the greater of Lines 5b or 6 in box e below
Betsy	\$5.50 x 20 x 52 = \$5,720			\$100 x 12 = \$1,200	
Cynthia		400 x 12 = \$4,800			
Janet	\$480				
7. Totals	a. \$19,200	b. \$4,800	c.	d. \$1,200	e. \$512

8. Enter total of items 7a. through 7e. This is <u>Annual Income</u> .	8. \$25,712
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ANNUAL AND ADJUSTED INCOME CALCULATION (Continued)

9. Annual income (enter line 8 from Part II).		9. \$25,712
10. Number of family members (except parties to the note or their spouses) under 18, disabled, or full-time students.	10. 3	
11. Multiply line 10 by 480.		11. \$ 1,440
12. Child care deduction (reasonable expenses for care of children 12 and under that enable family member to work, actively seek employment, or further education).		12. \$ 2,600
13. Elderly household deduction (enter \$400 if head of household or spouse who is party to the note is 62 or older or an individual with disabilities)		13. -
14. Disability assistance expenses (reasonable expenses for disabled family member that enable a family member to work).	14. -	
15. Medical expenses in excess of insurance reimbursement (elderly households only).	15. -	
16. 3% of annual income (line 9 x 0.03).	16. -	
17. Allowable disability assistance/medical expenses. (line 14 + line 15 minus line 16).		17. -
18. Total deductions (add lines 11, 12, 13 and 17).		18. \$4,040
19. Adjusted income (line 9 minus line 18).		19. \$21,672

SECTION 3 -- COMMENTS

ANNUAL AND REPAYMENT INCOME CALCULATIONS

For Annual Income	For Repayment Income
<ul style="list-style-type: none">Count David's wagesCount Betsy's wagesCount child supportCount only \$480 of Janet's wagesDo not count Kathy's wagesCount Cynthia's Social SecurityCount actual income from assetsDo not count payments for care of foster child	<ul style="list-style-type: none">Count David's wagesCount Betsy's wagesCount child supportDo not count Janet's wagesDo not count Kathy's wagesDo not count Cynthia's Social SecurityCount actual income from assetsCount payments for care of foster child

ASSET CALCULATIONS

Repayment Income from Assets

- Only the assets of parties to the note are considered. Therefore, Cynthia's checking account balance is not considered.
- The market value of the assets of the parties to the note exceeds \$7,500. Therefore an \$800 contribution of assets is required.

Annual Income from Assets

- Assets of all household members are considered. Therefore Cynthia's checking account balance is considered.
- The amount of any required asset contribution, in this case \$800, is transferred from Part I of the calculation worksheet. It is not calculated based on total household assets.
- In addition, for annual income, the calculation of imputed income from assets must be made if assets exceed \$5,000. In this case, the imputed income is less than the actual income.

ADJUSTED INCOME CALCULATION

Dependent Deduction

- Three dependent deductions are permitted for Kathy (a minor), Janet (an adult full-time student, who is not the head or spouse), and Cynthia (an adult individual with disabilities, who is not the head or spouse).
- A dependent deduction is not given for a foster child.

Child Care Deduction

- Child care expenses are permitted for the care of a foster child, but must not exceed the amount earned by the family member enabled to work. Betsy earns \$110/week and pays \$50/week for child care.
- Child care expenses are not permitted if another adult household member is available to care for the child. Janet is not available because she is a full-time student and Cynthia cannot care for the child because of her disability.

The full amount of the child care may be deducted.

Elderly Household Deduction

Even though an elderly person is a part of the household, this is not an elderly household because neither the head or spouse is 62 years of age or older or an individual with disabilities.

Medical Expense Deduction

Family medical expenses cannot be deducted because this is not an elderly family.

Disability Assistance Expenses

No disability assistance expenses were claimed. To be allowed a deduction, the expenses would have to be necessary to enable a family member to work.

ATTACHMENT 4-C
ANNUAL INCOME SOURCES

I. SOURCES OF INCOME COUNTED FOR ANNUAL INCOME

For annual income, consider income from the following sources that are attributable to any household member.

(1) The gross amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips, bonuses, and other compensation for personal services of all adult members of the household. If a cost of living allowance or a proposed increase in income has been estimated to take place on or before loan approval, loan closing, or the effective date of the payment assistance agreement, it will be included as income. For annual income count only the first \$480 of earned income from adult full-time students who are not the head or spouse.

(2) The net income from the operation of a farm, business, or profession. The following provisions apply:

(i) Expenditures for business or farm expansion, capital improvements, or payments of principal on capital indebtedness shall not be used as deductions in determining income. A deduction is allowed in the manner prescribed by Internal Revenue Service (IRS) regulations only for interest paid in amortizing capital indebtedness.

(ii) Farm and nonfarm business losses are considered "0" in determining annual income.

(iii) A deduction, based on straight line depreciation, is allowed in the manner prescribed by IRS regulations for the exhaustion, wear and tear, and obsolescence of depreciable property used in the operation of a trade, farm, or business by a member of the household. The deduction must be based on an itemized schedule showing the amount of straight line depreciation.

(iv) Any withdrawal of cash or assets from the operation of a farm, business, or profession will be included in income, except to the extent the withdrawal is for reimbursement of cash or assets invested in the operation by a member of the household.

(v) A deduction is allowed for verified business expenses, such as lodging, meals, and fuel, for business trips made by salaried employees, such as long-distance truck drivers, who must meet these expenses without reimbursement.

(vi) For home-based operations such as child care, product sales, and the production of crafts, housing related expenses for the property being financed such as mortgage interest, real estate taxes, and insurance, which may be claimed as business expense deductions for income tax purposes, will not be deducted from annual income.

(3) Interest, dividends, and other net income of any kind from real or personal property, including:

(i) The share received by adult members of the household from income distributed from a trust fund.

(ii) Any withdrawal of cash or assets from an investment except to the extent the withdrawal is reimbursement of cash or assets invested by a member of the household.

(iii) Where the household has net family assets in excess of \$5,000, the greater of the actual income derived from all net family assets or a percentage of the value of such assets based on the current passbook savings rate, as determined by the Agency.

(4) The full amount of periodic payments received from Social Security (including Social Security received by adults on behalf of minors or by minors intended for their own support), annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts. However, deferred periodic amounts from supplemental income and social security benefits that are received in a lump sum amount or in prospective monthly amounts are not counted.

(5) Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation, and severance pay.

(6) ~~Public assistance except as indicated in Part II (15) of this attachment.~~

(i) Alimony and child support awarded in a divorce decree or separation agreement, unless the applicant certifies the payments are not received, and the applicant provides documentation to the Agency that a reasonable effort has been made to collect the payments through the official entity responsible for enforcing such payments; or

(ii) Recurring monetary gifts or contributions from an organization or person who is not a member of the household.

(8) All regular pay, special pay (except for persons exposed to hostile fire), and allowances of a member of the armed forces who is the applicant or spouse, whether or not that family member lives in the home.

(9) Employer provided fringe benefits which are included as taxable income on an employee's pay statement or W-2 statement.

II. SOURCES OF INCOME EXCLUDED FROM ANNUAL INCOME

The following sources are never considered when calculating annual income.

(1) Income from the employment of persons under 18 years of age, except parties to the note and their spouses.

(2) Income of live-in aides and income directly received by foster children or foster adults.

(3) Payments received for the care of foster children or foster adults (usually individuals with disabilities, unrelated to the applicant, who are unable to live alone).

(4) Temporary, nonrecurring, or sporadic income (including gifts).

(5) Lump-sum additions to family assets such as inheritances, capital gains, insurance payments included under health, accident, hazard, or worker's compensation policies, and settlements for personal or property losses.

(6) Amounts that are granted specifically for, or in reimbursement of, the cost of medical expenses.

(7) Earnings in excess of \$480 for each full-time student 18 years old or older, except parties to the note and their spouses.

(8) Reparation payments paid by a foreign government arising out of the Holocaust. If any applicant for an Agency loan was deemed ineligible because the applicant's income exceeded the low-income limit because of the applicant's Nazi persecution benefits, the Approval Official Loan should notify the applicant to reapply for a loan.

(9) Any earned income tax credit.

(10) Adoption assistance payments in excess of \$480 per adopted child.

(11) Deferred periodic payments of supplemental security income and Social Security benefits that are received in a lump sum.

(12) The amount of student financial assistance received by household members.

(13) Amounts received by the family in the form of refunds or rebates under State or local law for property taxes paid on the dwelling unit.

(14) Amounts paid by a State agency to a family with a developmentally disabled family member living at home to offset the cost of services and equipment needed to keep the developmentally disabled family member at home.

(15) Any other revenue which a Federal statute exempts shall not be considered income or used as a basis for determining eligibility for an Agency loan, payment assistance, or denying or reducing Federal financial assistance or benefits to which the recipient would otherwise be entitled. Additional financial assistance which is considered exempt income under Federal statutes includes:

(i) The imminent danger duty pay to a service person applicant or spouse away from home and exposed to hostile fire. Amounts of imminent danger pay for military personnel stationed in the Combat Zone are excluded from annual income effective August 2, 1990. Any military pay received by persons serving in the Combat Zone received on or after January 17, 1991, is excluded from annual income. The Combat Zone, as defined by the Presidential Executive Order 12744 dated January 21, 1991, consists of the Persian Gulf, the Red Sea, the Gulf of Oman, that portion of the Arabian Sea that lies north of 10 degrees north latitude and west of 68 degrees east longitude, the Gulf of Aden, the total land areas of Iraq, Kuwait, Saudi Arabia, Oman, Bahrain, Qatar, and the United Arab Emirates. Immediately upon notification by the family, or based on information from a knowledgeable source that a member of the household was serving, in the Combat Zone, the Loan Approval Official shall redetermine the household income retroactive to January 17, 1991, and adjust the applicant's payment assistance accordingly.

(ii) Payments to volunteers under the Domestic Volunteer Service Act of 1973, including, but not limited to:

(a) National Volunteer Antipoverty Programs which include Volunteers In Service To America (VISTA), Peace Corps, Service Learning Programs, and Special Volunteer Programs.

- (b) National Older American Volunteer Programs for persons age 60 and over which include Retired Senior Volunteer Programs, Foster Grandparent Program, Older American Community Services Program, and National Volunteer Programs to Assist Small Business and Promote Volunteer Service to Persons with Business Experience, Service Corps of Retired Executives (SCORE), and Active Corps of Executives (ACE).
- (iii) Payments received after January 1, 1989, from the Agent Orange Settlement Fund or any other fund established pursuant to the settlement in the "In Re Agent Orange" product liability litigations, M.D.L. No. 381 (E.D.N.Y.).
- (iv) Payments received under the "Alaska Native Claims Settlement Act" or the "Maine Indian Claims Settlement Act."
- (v) Income derived from certain submarginal land of the United States that is held in trust for certain American Indian tribes.
- (vi) Payments or allowances made under the Department of Health and Human Services Low-Income Home Energy Assistance Program.
- (vii) Payments received from the Job Training Partnership Act.
- (viii) Income derived from the disposition of funds of the Grand River Band of Ottawa Indians.
- (ix) The first \$2,000 of per capita shares received from judgment funds awarded by the Indian Claims Commission or the Court of Claims, or from funds held in trust for an American Indian tribe by the Secretary of Interior.
- (x) Payments received from programs funded under Title V of the Older Americans Act of 1965.
- (xi) The value of the allotment provided to an eligible household under the Food Stamp Act of 1977.
- (xii) Any other income which is exempted under Federal statute.
- (16) Payments received on reverse amortization mortgages (these payments are considered a drawdown on the applicant's assets).
- (17) Employer provided fringe benefits which are not included as taxable income on an employee's pay statement or W-2 statement.

ATTACHMENT 4-D
REPAYMENT INCOME SOURCES

I. SOURCES OF INCOME COUNTED FOR REPAYMENT INCOME

For repayment income, consider income from the following sources that are: (1) attributable to parties to the note; and (2) represents a source of dependable income. Items marked with an asterisk are also counted for annual income.

*(1) The gross amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips, bonuses, and other compensation for personal services of all adult members of the household. If a cost of living allowance or a proposed increase in income has been estimated to take place on or before loan approval, loan closing, or the effective date of the payment assistance agreement, it will be included as income. For annual income count only the first \$480 of earned income from adult full-time students who are not the head or spouse.

*(2) The net income from the operation of a farm, business, or profession. The following provisions apply:

- (i) Expenditures for business or farm expansion, capital improvements, or payments of principal on capital indebtedness shall not be used as deductions in determining income. A deduction is allowed in the manner prescribed by Internal Revenue Service (IRS) regulations only for interest paid in amortizing capital indebtedness.
- (ii) Farm and nonfarm business losses are considered "0" in determining annual income.
- (iii) A deduction, based on straight line depreciation, is allowed in the manner prescribed by IRS regulations for the exhaustion, wear and tear, and obsolescence of depreciable property used in the operation of a trade, farm, or business by a member of the household. The deduction must be based on an itemized schedule showing the amount of straight line depreciation.
- (iv) Any withdrawal of cash or assets from the operation of a farm, business, or profession will be included in income, except to the extent the withdrawal is for reimbursement of cash or assets invested in the operation by a member of the household.
- (v) A deduction is allowed for verified business expenses, such as lodging, meals, and fuel, for business trips made by salaried employees, such as long-distance truck drivers, who must meet these expenses without reimbursement.

(vi) For home-based operations such as child care, product sales, and the production of crafts, housing related expenses for the property being financed such as mortgage interest, real estate taxes, and insurance, which may be claimed as business expense deductions for income tax purposes, will not be deducted from annual income.

*(3) Interest, dividends, and other net income of any kind from real or personal property, including:

(i) The share received by adult members of the household from income distributed from a trust fund.

(ii) Any withdrawal of cash or assets from an investment except to the extent the withdrawal is reimbursement of cash or assets invested by a member of the household.

(iii) Where the household has net family assets in excess of \$5,000, the greater of the actual income derived from all net family assets or a percentage of the value of such assets based on the current passbook savings rate, as determined by the Agency.

*(4) The full amount of periodic payments received from Social Security (including Social Security received by adults on behalf of minors or by minors intended for their own support), annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts. However, deferred periodic amounts from supplemental security income and social security benefits that are received in a lump sum amount or in prospective monthly amounts are not counted.

*(5) Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation, and severance pay.

*(6) ~~Public assistance~~ ~~Public assistance~~, such as:

(i) Alimony and child support awarded in a divorce decree or separation agreement, unless the applicant certifies the payments are not received, and the applicant provides documentation to the Agency that a reasonable effort has been made to collect the payments through the official entity responsible for enforcing such payments; or

(ii) Recurring monetary gifts or contributions from someone who is not a member of the household.

*(8) All regular pay, special pay (except for persons exposed to hostile fire), and allowances of a member of the armed forces who is the applicant or spouse, whether or not that family member lives in the home.

(9) ~~Adoption assistance payments in excess of \$480 per adopted child~~ (usually individuals with disabilities, unrelated to the borrower, who are unable to live alone).

(11) Reparation payments paid by a foreign government arising out of the Holocaust. If any applicant for an Agency loan was deemed ineligible because the applicant's income exceeded the low income limit because of the applicant's Nazi persecution benefits, the Agency Loan Approval Official should notify the applicant to reapply for a loan.

(12) ~~The amount of student financial~~ assistance received by household members.

(14) Amounts received by the family in the form of refunds or rebates under State or local law for property taxes paid on the dwelling unit.

(15) Any other revenue which a Federal statute exempts shall not be considered income or used as a basis for determining eligibility for an Agency loan, payment assistance, or denying or reducing Federal financial assistance or benefits to which the recipient would otherwise be entitled. Additional financial assistance which is considered exempt income under Federal statutes includes:

(i) The imminent danger duty pay to a service person applicant or spouse away from home and exposed to hostile fire. Amounts of imminent danger pay for military personnel stationed in the Combat Zone are excluded from annual income effective August 2, 1990. Any military pay received by persons serving in the Combat Zone received on or after January 17, 1991, is excluded from annual income. The Combat Zone, as defined by the Presidential Executive Order 12744 dated January 21, 1991, consists of the Persian Gulf, the Red Sea, the Gulf of Oman, that portion of the Arabian Sea that lies north of 10 degrees north latitude and west of 68 degrees east longitude, the Gulf of Aden, the total land areas of Iraq, Kuwait, Saudi Arabia, Oman, Bahrain, Qatar, and the United Arab Emirates. Immediately upon notification by the family, or based on information from a knowledgeable source that a member of the household was serving, in

the Combat Zone, the Loan Approval Official shall redetermine the household income retroactive to January 17, 1991, and adjust the applicant's payment assistance accordingly.

(ii) Payments to volunteers under the Domestic Volunteer Service Act of 1973, including, but not limited to:

(a) National Volunteer Antipoverty Programs which include Volunteers In Service To America (VISTA), Peace Corps, Service Learning Programs, and Special Volunteer Programs.

(b) National Older American Volunteer Programs for persons age 60 and over which include Retired Senior Volunteer Programs, Foster Grandparent Program, Older American Community Services Program, and National Volunteer Programs to Assist Small Business and Promote Volunteer Service to Persons with Business Experience, Service Corps of Retired Executives (SCORE), and Active Corps of Executives (ACE).

(iii) Payments received after January 1, 1989, from the Agent Orange Settlement Fund or any other fund established pursuant to the settlement in the "In Re Agent Orange" product liability litigations, M.D.L. No. 381 (E.D.N.Y.).

(iv) Payments received under the "Alaska Native Claims Settlement Act" or the "Maine Indian Claims Settlement Act."

(v) Income derived from certain submarginal land of the United States that is held in trust for certain American Indian tribes.

(vi) Payments or allowances made under the Department of Health and Human Services Low-Income Home Energy Assistance Program.

(vii) ~~Payments received from the Job Training Partnership Act of 1974~~ Payments received from the Job Training Partnership Act of 1974 and River Band of Ottawa Indians.

(ix) The first \$2,000 of per capita shares received from judgment funds awarded by the Indian Claims Commission or the Court of Claims, or from funds held in trust for an American Indian tribe by the Secretary of Interior.

(x) Payments received from programs funded under Title V of the Older Americans Act of 1965.

(xi) The value of the allotment provided to an eligible household under the Food Stamp Act of 1977.

(xii) Any other income which is exempted under Federal statute.

(16) Amounts paid by a State Agency to a family with a developmentally disabled family member living at home to offset the cost of services and equipment needed to keep the developmentally disabled family member in the home.

(17) Payments received on reverse amortization mortgages (these payments are considered a drawdown on the applicant's assets).

II. SOURCES OF INCOME EXCLUDED FROM REPAYMENT INCOME

The following sources are never considered when calculating repayment income.

(1) Income from the employment of persons under 18 years of age, except parties to the note and their spouses.

(2) ~~Temporary income including disposable income (including gifts)~~ Income from the employment of children or foster adults.

(4) Lump-sum additions to family assets such as inheritances, capital gains, insurance payments included under health, accident, hazard, or worker's compensation policies, and settlements for personal or property losses.

(5) Amounts that are granted specifically for, or in reimbursement of, the cost of medical expenses.

ATTACHMENT 4-E
SUMMARY OF VERIFICATION REQUIREMENTS FOR
FREQUENTLY-REPORTED INCOME SOURCES

The Loan Originator must verify and document all information that is used to establish an applicant's eligibility, calculate the amount of the loan and any payment assistance for which the applicant qualifies, and determine whether applicant assets must be contributed. This Attachment summarizes verification requirements for income and asset determinations. Appendix 2 provides several sample formats to be used that will help in the verification process.

Whenever, verification from a third party is requested, a copy of *Form RD 3550-1, Authorization to Release Information* must accompany the request. The authorization from the applicant on the *Form RD 3550-1* permits the Loan Originator to ask for, and verification sources to release, the needed information. The verification and certification formats provided in Appendix 2 are not official Agency forms. They are samples that may be adapted as needed for particular circumstances. In some instances the same format can be used whether a third party is providing a verification or the applicant is making a certification. For example, the sample *Verification of Support* format could be completed by the ex-spouse who is providing the support, or by the applicant, who certifies to the amount of support being provided if the ex-spouse is not willing to provide the verification.

Type of Income or Verification Source	Verification Requirements and Procedures
Income	
Income Tax Return	A complete, legible copy of the most recently filed Federal income tax form must be submitted for each applicant, unless the person was exempted from filing a return. Returns must be stored separately from the case file in a secured cabinet. The tax return reports the past year's income, while the application reports current income. Even so, it can serve as a valuable verification tool. Check the reported income, dependents, and assets against the information provided on the application. Identify and clarify with the applicant any information that appears inconsistent with the application.
Verification of Employment	The applicant must list all family members on the application and provide their employment status. The Loan Originator sends <i>Form RD 1910-5 Request for Verification of Employment</i> to each employer for verification. Pay stubs or other payroll records may be used to support or clarify income information provided.

Type of Income or Verification Source	Verification Requirements and Procedures
Self-Employed Persons	Self-employed applicants must provide current documentation of income and expenses, which cannot be older than the previous fiscal year. Appendix 2 provides a sample format for recording business expenses. The Loan Originator must compare the income and expense information provided by the applicant with the latest income tax return and clarify any discrepancies.
Unemployment and Unemployment Benefits	<p>Unemployed applicants must complete <i>Form RD 3550-4, Employment Certification/Payment Assistance</i>, which provides their current employment status and requires them to agree to inform the Agency immediately, in writing, if the employment status changes. If an applicant has recently become unemployed, the Loan Originator should contact the former employer to confirm that the applicant is no longer employed and that re-employment is not expected.</p> <p>Applicants receiving unemployment benefits must provide the most recent award or benefit letter prepared and signed by the authorizing agency to verify the unemployment income. Appendix 2 provides a sample format for requesting information about unemployment benefits.</p>
Regular, Unearned Income (e.g., Social security, pensions, workers compensation)	Borrowers must provide a copy of the most recent award or benefit letter prepared and signed by the authorizing agency. If the date of the letter is not within the last 12 months, require the applicant to submit information updating the award, for example, a cost-of-living (COLA) payment notice, Social Security Benefits Statement, or a notice of change in benefits. Appendix 2 provides sample formats for requesting this information.
Public Assistance	Borrowers must provide the most recent award or benefit letter prepared and signed by the authorizing agency to verify the amount of public assistance received. Appendix 2 provides a sample format for requesting this information.
Alimony or Child Support Payments	The applicant must provide a copy of the divorce decree, separation agreement, or other document indicating the amount of the required support payments. The applicant also must report the amount received during the past 12 months. If the applicant reports that the amount required by the agreement is not being received, the applicant must document that assistance from the State or local entity responsible for enforcing payment has been requested. Appendix 2 provides a sample format for requesting this information.

Type of Income or Verification Source	Verification Requirements and Procedures
Support for Foster Children or Adults	Payments received for the care of foster children or foster adults may be considered when calculating repayment income. Documentation must be provided indicating the amount of money received for the care of foster children or adults, and the anticipated period of time the support will be provided. Appendix 2 provides a sample format for requesting information.
Verification of Assets and Income from Assets	The Loan Originator sends <i>Form RD 1944-62, Request for Verification of Deposit</i> to financial institutions to verify account balances. For some assets such as mutual funds or 401(k) accounts copies of year-end statements can provide information about annual income. Applicants must certify whether any asset has been disposed of for less than fair market value. Appendix 2 provides a sample format for this certification and formats for inquiring about a variety of assets.
Verification of Gifts	If funds needed for the purchase will be provided by another person, the Loan Originator must send the donor <i>Form RD 3550-2, Request for Verification of Gift/Gift Letter</i> to verify whether the gift must be repaid and whether the funds have already been transferred.
Deductions	
Dependent Minor	No verification is required. The applicant must simply indicate the number of minors on the application. The dependent must qualify for the deduction each time a certification is made.
Full-Time Student Status and Education Benefits and Expenses	For repayment income only, the Loan Originator may consider educational benefits provided to parties to the note. Any amount provided for living expenses may be counted as repayment income. The applicant may be eligible to receive a deduction for dependents attending school full-time. The applicant must provide documentation from the school that the dependent is enrolled as a full-time student. Appendix 2 provides a sample format for requesting this information.

Type of Income or Verification Source	Verification Requirements and Procedures
Child Care Expenses	<p>Reasonable child care expenses may be deducted from annual income. To qualify for the deduction, the applicant must:</p> <ul style="list-style-type: none"> • Identify the children receiving the child care and the family member who can work or go to school as a result of the care; • Demonstrate that there is no adult household member available to care for the children; • Identify the child care provider, the hours of care provided, and the costs (e.g., letter on the child care provider's letterhead or a copy of a signed child care contract); and • Identify the educational institution and provide documentation of enrollment (if appropriate). <p>Appendix 2 provides a sample format for requesting child care information.</p>
Disability Expenses	<p>To qualify for disability deductions, the applicant must describe the nature of the expense, provide documentation of the costs, and demonstrate that the expense enables a family member to work. <i>Form RD 1944-4, Certification of Disability or Handicap</i> should be used to verify the disability.</p>
Medical Expenses	<p>For elderly households only, allowable medical expenses may be deducted from annual income. Therefore, documentation of medical expenses is not generally required for nonelderly households. However, nonelderly households with unreimbursed medical expenses in excess of 3 percent of annual income may receive an exception to the asset limitations. In such cases, these medical expenses must be verified as well. Appendix 2 provides a sample format for documenting medical expenses.</p>